Joint Committee on Taxation
October 11, 1989
JCX-64-89

Allow Certain Cotton Warehouses to the Use of the Cash Basis of Accounting[1]

Present Law

The Tax Reform Act of 1986 provided that for taxable years beginning after December 31, 1986, C corporations and partnerships which have a C corporation as a partner may not compute taxable income under the cash receipts and disbursements method of accounting. However, certain farming businesses, qualified personal service corporations, and entities with annual gross receipts of $5 million or less for all prior taxable years beginning after December 31, 1985, continue to use the cash method of accounting.

Explanation of Proposal

The operation of a warehouse licensed for the storage of cotton under the U.S. Warehouse Act (7 U.S.C. 244), or a similar State law, would be considered to be the operation of a farming business for purposes of the exceptions that allow the use of the cash method of accounting.

Effective Date

The proposal would be effective for taxable years beginning after December 31, 1986.

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[1] This issue was added to the list of items scheduled for a hearing on October 12, 1989, before the Ways and Means Subcommittee on Select Revenue Measures. See JCX-62-89, October 6, 1989, for a description of the other items scheduled for the hearing.

J862-77
H782-55